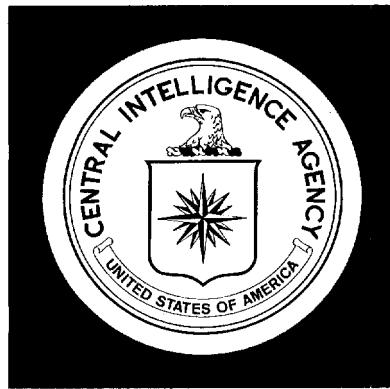


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INTERNATIONAL MONETARY DEVELOPMENTS: The decision Monday night by the finance ministers of West Germany, Denmark, and the Benelux countries to continue the joint float of their currencies apparently had a reassuring influence on the market. Yesterday the dollar lost some of its Monday gains against all major European currencies except the French franc and the Italian lira. The Bank of France again intervened modestly, reportedly selling \$35 million to support the franc. No other major intervention was reported in Europe.

There was little internal pressure on the diminished European joint float. The Bundesbank intervened only slightly to support the weaker Danish crown and Belgian franc.

In other developments, the Bank of Spain allowed the peseta, which has appreciated almost 19 percent against EC currencies since last July, to float. Franc-zone countries--mainly in Africa--have decided to permit their currencies to float with the French franc, at least temporarily.

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ISRAEL: Labor Alignment leaders are cautiously optimistic that they will be able to form a new government with their two most important pre-election coalition partners, the National Religious Party (NRP) and the Independent Liberal Party. The two prospective partners provided some evidence on Monday of willingness to reconstitute the Labor-led coalition when they supported Labor's candidate for speaker of the Knesset against a challenge by the conservative opposition Likud bloc.

A Labor Alignment deputy minister informed US officials late last week that agreement between Labor and the NRP was "virtually complete." Without such agreement the Alignment probably could not form a viable government. The deputy minister's confidence suggests that Labor leaders anticipate that the NRP will soften its public demands for legislation providing rigid standards for conversion to Judaism. In addition, the NRP may be prepared to drop its recommendation for a national unity government that would include Likud.

Leaders of the NRP have privately discussed with Alignment representatives the possibility of agreement on a conciliatory foreign policy much like that of the current caretaker government. Such a policy would entail acceptance of UN Resolutions 242 and 338 and would approve Israeli participation in the Geneva talks. It would, however, probably not include stipulations on the sensitive issue of Israeli policy toward the occupied West Bank.

Deputy Prime Minister Allon informed the US ambassador on January 20 that Labor leaders have considered the possibility of forming a narrow coalition that would exclude both the NRP and Likud. This strategy would almost certainly be built around plans for another election within a few months--one in which the Labor Alignment would be better prepared

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to face the NRP and Likud on domestic and foreign issues. Formation of such a government is unlikely, however, because it would leave the government with only 61 of 120 Knesset seats, violate Israel's tradition of widely based governments, and invite no-confidence votes.

The election last month not only reduced the Labor Alignment's strength in the Knesset but also restricted Prime Minister Meir's options in allotting ministerial posts. The shift to the right dictates that she continue to accommodate the views of Defense Minister Dayan on security issues. On the other hand, Mrs. Meir cannot go so far as to yield to those elements, including Dayan, who want to replace Abba Eban as foreign minister. Eban is backed by Finance Minister Sapir, who has great influence with Labor Alignment regulars.

Facing these constraints, the Prime Minister is likely to appoint to the cabinet tested political figures of her own generation. This strategy will almost certainly solve her most immediate problem--forming a government that will approve peace negotiations--but it may also intensify the struggle by younger political figures for control of the party.

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THAILAND: After consulting with the King, Prime Minister Sanya returned to Bangkok on January 21 armed with a tough statement squashing speculation that his government is about to step down. Sanya said his government still has the confidence of the King, but he threatened to resign if the National Assembly did not pass the tax bills that had been rejected earlier. The Prime Minister strongly implied that his challenge to the assembly had the firm backing of the King.

The Prime Minister's statement is another sign of the extent to which the King has been drawn into the political process. Sanya also referred to the King's "interest" in recent student disturbances. Given the deliberately delphic nature of the King's utterances, the students will interpret this remark as a signal from the palace that they should get off the streets and back into the classrooms.

Sanya's threat last week to resign was prompted by charges that his government had been ineffective in dealing with public disorder. He has ordered the police to crack down on student lawbreakers, but the police have been reluctant to take such action for fear of arousing a new wave of student wrath. The situation appears to be calming down, however. For the moment, public sympathy for the students is waning, and this should make both Sanya's and the police department's job easier.

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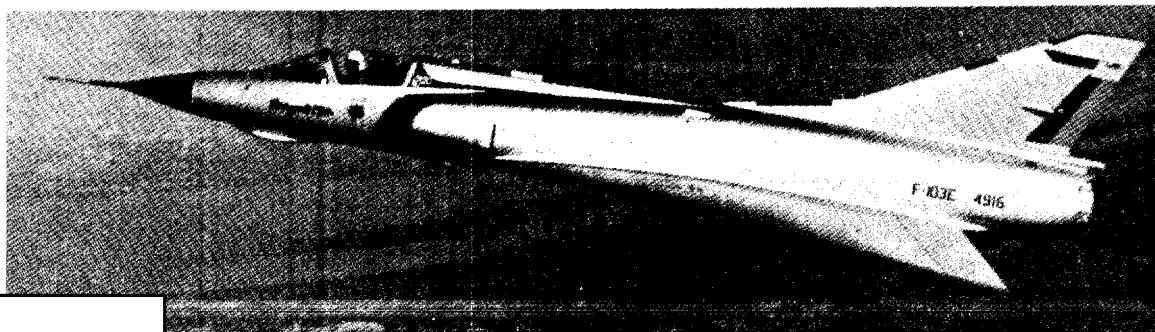
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Mirage III E Interceptor and Fighter Bomber



Speed: Mach 2.2
Payload: 2,000 lbs.

Combat radius: 790 n.m.
Combat ceiling: 50,000 ft.

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FRANCE-CHINA: Preliminary discussions appear to be under way between France and China for the sale of Mirage III fighter aircraft. A recent French press article claimed that China is interested in buying some 30-40 Mirage IIIs and possibly in obtaining the rights to produce the aircraft in China under license. The article stated that the Chinese also are interested in acquiring the new F-1 Super Mirage when it becomes available.

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Acquisition in significant numbers of the Mirage III--a Mach-2 fighter--would greatly improve the intercept and ground-attack capabilities of the Chinese Air Force. China currently has MIG-19s, F-9s, a small number of MIG-21s, and older aircraft in its fighter inventory.

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If the French agreed to licensed production of the Mirage in China, the Chinese would gain access to advanced technological processes that their aircraft industry currently lacks.

The Mirage F-1 is the latest aircraft produced by Dassault-Breguet and embodies improvements over the Mirage III fighter. The F-1 Super Mirage, an improved model of the F-1, will be powered by a new engine that will increase the speed of the aircraft to Mach 2.5. The first Super Mirage is expected to fly around 1976, and production models are expected to be available in 1978. Dassault officials claim that the avionics planned for this aircraft will be comparable to those carried by the US F-15.

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USSR-ARGENTINA: Moscow has submitted the lowest bid to supply equipment for the prestigious Salto Grande dam project on the border between Argentina and Uruguay, according to an embassy report. The Soviet quote of \$65 million is \$30 million less than the closest US bid, the lowest Western offer. No bid has been accepted, however, and political considerations will be an overriding factor. The Soviet financing package includes an option to repay partly in commodities over ten years at 4-percent interest--considerably less than the rates offered by Western bidders--and a \$10-million credit to cover local construction costs.

The Soviets have as much expertise in turbine construction as the West, and Moscow has made no secret of its intention to compete aggressively for several other large hydroelectric projects in southern South America and elsewhere in the West. In order to improve its chances to win some contracts, Moscow reportedly will submit bids jointly with Western firms--a practice it has also followed in the US.

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SOUTH KOREA: Although South Korea will be able to obtain normal oil supplies as a result of promises made by Kuwait and Saudi Arabia, real GNP growth is expected to slow to about 7 percent this year, compared with 17 percent last year.

Weakened foreign demand for Korean exports of light consumer goods, shortages of raw material imports, and rising costs of oil imports will be major factors in the projected slowdown. Export expansion, which sparked last year's growth, will fall sharply as a result of energy problems in Japan, Korea's major market. Almost two thirds of the growth in Korea's exports in 1973 went to Japan, accounting for 39 percent of total exports. Sales to the US market will rise, but not enough to increase total exports as rapidly as in recent years.

While export growth will slow, import costs will rise sharply because of higher prices. South Korea's oil import bill will triple this year to about \$1 billion. There will also be increases in nonoil imports, especially foodstuffs, which will boost the value of Korea's imports in 1974 by at least 30 percent to an estimated \$5.3 billion. The trade deficit will increase well above last year's \$680 million as a result of the slowing export growth, and a substantial current account deficit is likely.

Korea should be able to finance a current account deficit of about \$1 billion without seriously straining its international financial position. Seoul enjoys relatively large foreign aid commitments--about \$1 billion at the beginning of 1973. If the country can continue to attract private capital as in the past, it should have only a modest overall balance-of-payments deficit this year. Foreign exchange reserves are now at a record level of \$1.1 billion, compared with \$740 million at the end of 1972.

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The domestic economy will face more serious problems. Wholesale prices rose 15 percent in 1973, and inflation will worsen this year largely as a result of higher oil costs. Moreover, a sharp fall in demand may result in many bankruptcies, because expansion has been export-oriented and business firms have relied heavily on borrowing to finance their operations.

Korea, aware of the long-term problems created by heavy dependence on Japan for imports, exports, and investment, is attempting to attract more US and European investment.

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C UK: The miners' next step in their confrontation with the government could be a strike call.

According to an official of the National Union of Mineworkers, the union's special negotiating committee will meet this afternoon to hear reports on how well the overtime ban has been implemented. On Thursday, the miners' executive committee will discuss various ways of enforcing the overtime ban more rigidly as well as the possibility of inaugurating a reduced workweek of three or four days. In the official's opinion, the executive will recommend that the miners vote on whether or not to call a strike. Holding a strike ballot normally requires up to three weeks, but the process could be speeded up to two.

The union official also commented that Prime Minister Heath had not yet called for a meeting with the miners' executive, but this could come later. He admitted that the coal supply situation is not desperate and that the country probably could function through the spring with its current stocks. He warned, however, that "this would not be true for next winter," suggesting that the miners intend to continue indefinitely their overtime ban or other measures to limit production.

Heath's next step in the confrontation is unclear. He told Commons yesterday that the responsibility for the future rests with the miners and that the government had done everything in its power to reach a settlement. He has not yet tipped his hand on whether he plans to call an early election; speculation continues that it may be held on February 14.

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C BOLIVIA: The military is on full alert as a result of demonstrations and strikes protesting increases in the price of several basic food items. The 35,000-member mine workers union and 14,000 industrial workers on Tuesday initiated walkouts of 24 to 36 hours duration, according to press reports. Serious confrontations have been avoided so far, however, and no strong leader has emerged from among the strikers to make the situation more troublesome.

The atmosphere can be expected to remain tense for at least the remainder of this week. If the strikes continue beyond their scheduled duration, the Banzer regime will be faced with its most serious challenge since it came to power two and one-half years ago.

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FOR THE RECORD*

Israel-Egypt: Israel's parliament yesterday ratified the decision of the caretaker government to sign the disengagement agreement with Egypt. The 120-member Knesset voted 76-35 in favor, following a policy statement by Prime Minister Meir and a heated, daylong debate. All dissenting votes were cast by the opposition Likud group. [redacted]

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Argentina: President Peron has avoided a major head-on clash with leftist labor leaders in Cordoba by postponing until early February the provincial union election originally scheduled for January 20. Although the agreement that settled the recent bus strike appears to be holding, statements by provincial spokesmen indicate that major differences persist with the Buenos Aires leadership, which is under Peron's supervision. Peron has achieved his purpose of gaining additional time to try to defuse the situation and strengthen his supporters within the province. [redacted]

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